

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Delton Kellogg Schools	County Barry
Fiscal Year End June 30, 2006	Opinion Date September 29, 2006	Date Audit Report Submitted to State December 4, 2006	

We affirm that:

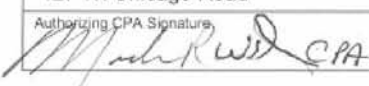
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	No comments and recommendations.	
Other (Describe)	<input checked="" type="checkbox"/>	Single Audit Reports	
Certified Public Accountant (Firm Name) Norman & Paulsen, P.C.		Telephone Number 269-651-3228	
Street Address 127 W. Chicago Road		City Sturgis	State Zip MI 49091
Authorizing CPA Signature 		Printed Name Michael R. Wilson	License Number 1101017570

DELTON KELLOGG SCHOOLS

FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION

JUNE 30, 2006

Delton Kellogg Schools

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Delton Kellogg Schools

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Delton Kellogg Schools, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Delton Kellogg Schools, as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Delton Kellogg Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Delton Kellogg Schools as of June 30, 2006, and the respective changes in financial position, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The administration's discussion and analysis and budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Board of Education
Delton Kellogg Schools

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Delton Kellogg Schools basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2006, on our consideration of Delton Kellogg School's internal control over financial reporting and on our tests of it's compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Norman J. Paulsen, P.C.

September 29, 2006

DELTON KELLOGG SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS
YEAR ENDED June 30, 2006

This section of Delton Kellogg Schools' annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2006. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Delton Kellogg Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund, the Capital Projects Fund and the Debt Service Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statement

(Required Supplemental Information)

Budgetary Information for the General Fund and Major Special Revenue Funds

Other Supplemental Information

Reporting the School District as a whole - District-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

DELTON KELLOGG SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED June 30, 2006

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the School District use the following accounting approach:

Governmental funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

DELTON KELLOGG SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED June 30, 2006

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2006 and 2005:

TABLE I	June 30	
	<u>2006</u>	<u>2005</u>
Assets		
Current and other assets	\$ 6,127,638	\$ 11,502,140
Capital assets - Net of accumulated depreciation	<u>15,523,666</u>	<u>13,499,034</u>
Total assets	21,651,304	25,001,174
Liabilities		
Current liabilities	4,294,343	5,546,880
Long-term liabilities	<u>13,385,081</u>	<u>13,806,867</u>
Total liabilities	17,679,424	19,353,747
Net Assets		
Invested in property and equipment - net of related debt	2,389,903	3,179,920
Restricted for debt service	433,835	324,128
Unrestricted	<u>1,148,142</u>	<u>2,143,379</u>
Total net assets	<u>\$ 3,971,880</u>	<u>\$ 5,647,427</u>

DELTON KELLOGG SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED June 30, 2006

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$3,971,880 at June 30, 2006. Capital assets, net of related debt totaling \$2,389,903 compares the original cost, less depreciation of the School District's capital assets to long-term debt. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets \$1,148,142 was unrestricted.

The \$1,148,142 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years ended June 30, 2006 and 2005.

TABLE 2

	June 30	
	<u>2006</u>	<u>2005</u>
Revenue		
Program revenue:		
Charges for services	\$ 748,045	\$ 756,417
Grants and categoricals	2,340,737	2,206,683
General revenue:		
Property taxes	2,947,981	2,774,002
State foundation allowance	11,158,800	11,625,873
Interest earnings and other	<u>226,370</u>	<u>289,782</u>
Total revenue	17,421,933	17,652,757
Function/Program Expenses		
Instruction	\$ 10,576,944	\$ 10,048,498
Support services	6,273,216	4,882,049
Community services	114,748	89,171
Food services	783,072	763,489
Athletics	438,152	410,529
Interest on long-term debt	613,258	567,178
Depreciation (unallocated)	<u>298,090</u>	<u>274,732</u>
Total expenses	<u>19,097,480</u>	<u>17,035,646</u>
Increase in net assets	<u>\$ (1,675,547)</u>	<u>\$ 617,111</u>

DELTON KELLOGG SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED June 30, 2006

As reported in the statement of activities, the cost of all governmental activities this year was \$19,097,480. Certain activities were partially funded from those who benefited from the programs \$(748,045) or by other governments and organizations that subsidized certain programs with grants and categoricals \$(2,340,737). We paid for the remaining "public benefit" portion of our governmental activities with \$2,947,981 in taxes, \$11,158,800 in State foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced a decrease in net assets of \$1,675,547. Key reasons for the change in net assets were capitalizable expenditures and the repayment of bond principal. The increase in net assets differs from the change in fund balance and a reconciliation appears on page 15.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of School District operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted sources.

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$2,734,332, which is a decrease of \$3,966,040 from last year. In the General Fund, our principal operating fund, the fund balance decreased \$524,109 to \$1,599,613. In the Capital Projects Fund the fund balance decreased \$3,468,649 to \$673,539. The purpose of the Capital Projects Fund is to continue to spend the fund balance to complete the voter approved building renovation projects. In the Debt Service Fund the fund balance increased \$19,030 to \$433,835. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Fund fund balance is reserved since it can only be used to pay debt service obligations.

DELTON KELLOGG SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED June 30, 2006

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

Budgeted revenues were decreased by \$261,189. This was primarily to decrease the projected State Aid (foundation allowance) revenue based on a reduction in student count.

Budgeted expenditures were increased by \$174,009.

Actual revenues were within \$47,693 of final budgeted revenues or .3% which is immaterial.

Actual expenditures ended the year under the final budget by \$57,776 or .3% which is immaterial.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2006, the School District had \$30,395,045 invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net increase (including additions and disposals) of \$1,304,933, or 4.5 percent, from last year. The majority of this increase was construction in progress funded out of the Capital Projects Fund.

	<u>2006</u>	<u>2005</u>
Land	\$ 870,250	\$ 838,300
Buildings and improvements	27,046,187	17,810,824
Buses and other vehicles	1,286,448	1,303,055
Furniture and equipment	1,192,160	1,073,388
Construction in progress	<u>-</u>	<u>8,064,545</u>
Total capital assets	30,395,045	29,090,112
Less accumulated depreciation	<u>14,871,379</u>	<u>15,591,078</u>
Net capital assets	<u>\$ 15,523,666</u>	<u>\$ 13,499,034</u>

DELTON KELLOGG SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED June 30, 2006

Debt

At the end of this year, the School District had \$13,807,302 in bonds outstanding versus \$14,461,302 in the previous year - a decrease of \$654,000. This change was the result of scheduled principal payments.

	<u>2006</u>	<u>2005</u>
General Obligation Bonds	<u>\$ 13,807,302</u>	<u>\$ 14,461,302</u>

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt of \$13.8 million is significantly below the statutorily imposed limit.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

A reduction in student count will result in a decrease in State Aid (foundation allowance) revenue.

Increases in the employer contribution to the Michigan Public School Employees Retirement System, as well as increased premiums for health insurance will significantly affect the District's finances.

Increases in heating fuel costs and transportation fuel costs.

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Department, 327 North Grove Street, Delton, Michigan 49046.

DELTON KELLOGG SCHOOLS

STATEMENT OF NET ASSETS

June 30, 2006

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Current Assets	
Cash and cash equivalents	\$ 3,673,226
Accounts receivable	208,545
Taxes receivable (net)	-
Due from other governmental units	2,207,784
Prepaid expenses	19,026
Inventories	<u>19,057</u>
Total current assets	6,127,638
Noncurrent Assets	
Capital assets	30,395,045
Less: accumulated depreciation	<u>14,871,379</u>
Total noncurrent assets	<u>15,523,666</u>
Total assets	21,651,304
<u>LIABILITIES</u>	
Current Liabilities	
Short-term note payable	1,600,000
Accounts payable	373,545
Accrued payroll	725,842
Accrued benefits	647,329
Accrued interest	134,835
Accrued severance pay	121,197
Bonds payable, due within one year	<u>691,595</u>
Total current liabilities	4,294,343
Noncurrent Liabilities	
Accrued severance pay	269,374
Bonds payable	<u>13,115,707</u>
Total noncurrent liabilities	<u>13,385,081</u>
Total liabilities	17,679,424
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	2,389,903
Restricted for debt service	433,835
Unrestricted	<u>1,148,142</u>
Total net assets	<u><u>\$ 3,971,880</u></u>

See Notes to Financial Statements

DELTON KELLOGG SCHOOLS

STATEMENT OF ACTIVITIES
YEAR ENDED June 30, 2006

		<u>Program Revenues</u>		<u>Governmental</u>
				<u>Activities</u>
	<u>Expenses</u>	<u>Charges for</u>	<u>Operating</u>	<u>Net (Expense)</u>
		<u>Services</u>	<u>Grants/</u>	<u>Revenue and</u>
			<u>Contributions</u>	<u>Changes in Net</u>
				<u>Assets</u>
Functions/Programs				
Governmental activities:				
Instruction	\$ 10,576,944	\$ 228,688	\$ 1,946,365	\$ (8,401,891)
Support services	6,273,216	-	-	(6,273,216)
Food services	783,072	418,297	370,444	5,669
Athletics	438,152	101,060	11,191	(325,901)
Community services	114,748	-	-	(114,748)
Interest on long-term debt 613,258	-	12,737	(600,521)	
Depreciation (unallocated)	298,090	-	-	(298,090)
Total Governmental activities	<u>\$ 19,097,480</u>	<u>\$ 748,045</u>	<u>\$ 2,340,737</u>	(16,008,698)
General revenues:				
Taxes				
Property taxes, levied for general operations				1,867,457
Property taxes, levied for debt service				1,080,524
State aid not restricted to specific purposes				11,158,800
Interest and investment earnings				174,658
Other				<u>51,712</u>
Total general revenues				<u>14,333,151</u>
Change in Net Assets				(1,675,547)
Net Assets - Beginning of year				<u>5,647,427</u>
Net Assets - End of year				<u>\$ 3,971,880</u>

See Notes to Financial Statements

DELTON KELLOGG SCHOOLS

GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2006

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 2,295,701	\$ 859,096	\$ 435,832
Accounts receivable	207,810	-	350
Due from other governmental units	2,207,784	-	-
Due from other funds	28,323	-	-
Prepaid expenditures	19,026	-	-
Inventories	<u>13,270</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 4,771,914</u>	<u>\$ 859,096</u>	<u>\$ 436,182</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities			
Short-term note payable	\$ 1,600,000	\$ -	\$ -
Accounts payable	171,221	185,557	2,347
Accrued payroll	712,979	-	-
Accrued benefits	641,511	-	-
Accrued interest	46,590	-	-
Due to other funds	-	-	-
Deferred revenue	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	3,172,301	185,557	2,347
Fund Balances:			
Reserved:			
Inventories	13,270	-	-
Encumbrances	60,271	-	-
Debt service	-	-	433,835
Capital projects	-	673,539	-
Unreserved:			
Undesignated	<u>1,526,072</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>1,599,613</u>	<u>673,539</u>	<u>433,835</u>
Total liabilities and fund balances	<u>\$ 4,771,914</u>	<u>\$ 859,096</u>	<u>\$ 436,182</u>

See Notes to Financial Statements

Other Non-Major Governmental Funds	Total
\$ 82,597	\$ 3,673,226
385	208,545
-	2,207,784
-	28,323
-	19,026
<u>5,787</u>	<u>19,057</u>
<u>\$ 88,769</u>	<u>\$ 6,155,961</u>

\$ -	\$ 1,600,000
14,420	373,545
12,863	725,842
5,818	647,329
-	46,590
28,323	28,323
<u>-</u>	<u>-</u>
61,424	3,421,629

5,787	19,057
-	60,271
-	433,835
-	673,539
<u>21,558</u>	<u>1,547,630</u>
<u>27,345</u>	<u>2,734,332</u>
<u>\$ 88,769</u>	<u>\$ 6,155,961</u>

DELTON KELLOGG SCHOOLS

GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2006

Total Fund Balances - Governmental Funds \$ 2,734,332

Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are not
financial resources and are not reported in the funds.

The cost of the capital assets is	30,395,045
Accumulated depreciation is	<u>(14,871,379)</u>
Total	15,523,666

Long-term liabilities are not due and payable in the
current period and are not reported in the funds:

Accrued severance pay	(390,571)
Bonds payable	(13,807,302)

Accrued interest payable on long-term liabilities is not
included as a liability in governmental activities (88,245)

Net assets of governmental activities \$ 3,971,880

See Notes to Financial Statements

DELTON KELLOGG SCHOOLS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
YEAR ENDED June 30, 2006

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>
Revenues			
Local sources	\$ 2,192,316	\$ 100,377	\$ 1,107,728
State sources	12,047,307	-	42,172
Federal sources	811,265	-	-
Interdistrict sources	<u>217,158</u>	<u>-</u>	<u>-</u>
Total revenues	15,268,046	100,377	1,149,900
Expenditures			
Instruction	10,186,373	-	-
Supporting services	5,026,912	-	-
Community services	114,748	-	-
Food service	-	-	-
Athletics	-	-	-
Debt service:			
Principal	70,000	-	584,000
Interest and other	68,820	-	546,870
Capital outlay	<u>-</u>	<u>3,569,026</u>	<u>-</u>
Total expenditures	<u>15,466,853</u>	<u>3,569,026</u>	<u>1,130,870</u>
Excess (deficiency) of revenues over expenditures	(198,807)	(3,468,649)	19,030
Other financing sources (uses)			
Operating transfers in	-	-	-
Operating transfers out	<u>(325,302)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(325,302)</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(524,109)	(3,468,649)	19,030
Fund balances, July 1	<u>2,123,722</u>	<u>4,142,188</u>	<u>414,805</u>
Fund balances, June 30	<u>\$ 1,599,613</u>	<u>\$ 673,539</u>	<u>\$ 433,835</u>

See Notes to Financial Statements

Other Non-Major Governmental Funds	Total
\$ 533,166	\$ 3,933,587
53,584	12,143,063
316,860	1,128,125
-	217,158
903,610	17,421,933
-	10,186,373
-	5,026,912
-	114,748
783,072	783,072
438,152	438,152
-	654,000
-	615,690
-	3,569,026
1,221,224	21,387,973
(317,614)	(3,966,040)
325,302	325,302
-	(325,302)
325,302	-
7,688	(3,966,040)
19,657	6,700,372
\$ 27,345	\$ 2,734,332

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED June 30, 2006

Net change in Fund Balances - Total Governmental Funds	\$ (3,966,040)
--	----------------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(298,090)
----------------------	-----------

Capital outlays	<u>2,322,722</u>
-----------------	------------------

Total	2,024,632
-------	-----------

Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	2,432
--	-------

Accrued severance pay is reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the government funds.

Accrued voluntary severance plan beginning of year	-
Accrued voluntary severance plan end of year	(390,571)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	654,000
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Change in Net Assets of Governmental Activities	<u>\$ (1,675,547)</u>
---	-----------------------

See Notes to Financial Statements

DELTON KELLOGG SCHOOLS
FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2006

Student
Activities
Agency Fund

ASSETS

Cash and cash equivalents

\$ 154,191

LIABILITIES

Due to student groups

\$ 154,191

See Notes to Financial Statements

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Delton Kellogg Public Schools conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School Districts' reporting entity, and which organizations are legally separate, component units of the school district. Based on the application of the criteria, the district does not contain any component units.

District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the district's government wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-Wide Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include (1) charges to customer or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

Fund-based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The school district reports the following major governmental funds:

The General Fund is the school district's primary operating fund. It accounts for all financial resources of the district, except those required to be accounted for in another fund.

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Capital Projects Fund is used to record bond proceeds or other revenue and the disbursement of funds specifically designated for acquiring new school sites, buildings, equipment, and for major remodeling and repairs. The fund is retained until the purpose for which the fund was created has been accomplished.

The Debt Service Fund is used to record tax, interest, other revenue for payment, principle, and other expenditures on the bond issues.

Additionally, the government reports the following fund types:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

The School Service Funds are Special Revenue Funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of these funds. The School Service Funds maintained by the School District are the Athletic Fund and Food Services Fund.

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The School District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school and school-related purposes. The funds are segregated and held in trust for the students and parents.

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. Taxes are considered delinquent on March 1 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

The State of Michigan utilized a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state's School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The school district does not have infrastructure type assets.

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

Long-Term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data/Reclassifications - Comparative data is not included in the district's financial statements.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the district to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits districts to amend its budgets during the year. There were no significant amendments during the year.

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

Excess of Expenditures Over Appropriations in Budgeted Funds - The School district did not have significant expenditure budget variances.

Capital Projects Fund Compliance - The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of 1351a of the State of Michigan's School Code.

NOTE 3 - CASH AND CASH EQUIVALENTS

The School District's cash and cash equivalents at June 30, 2006, are composed of the following:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Deposits	<u>\$ 3,673,226</u>	<u>\$ 154,191</u>	<u>\$ 3,827,417</u>

Deposits consist of checking, savings, and bank municipal investment funds. The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared, or of deposits in transit) at \$4,137,040. Of that amount, \$100,000 was covered by federal depository insurance coverage or secured and \$842,944 was uninsured and uncollateralized. The balance of \$3,194,096 was invested in the bank municipal investment funds which are not categorized by risk.

The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. The School District evaluates each financial institution it deposits School District funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the School District's governmental activities was as follows:

	Balance <u>July 1, 2005</u>	<u>Additions</u>	Disposals and <u>Adjustments</u>	Balance <u>June 30, 2006</u>
Assets not being depreciated - Land	\$ 838,300	\$ 31,950	\$ -	\$ 870,250
Capital assets being depreciated:				
Buildings and building improvements	17,810,824	11,514,799	2,279,436	27,046,187
Buses and other vehicles	1,303,055	57,888	74,495	1,286,448
Furniture and equipment	1,073,388	118,772	-	1,192,160
Construction in progress	<u>8,064,545</u>	<u>3,569,026</u>	<u>11,633,571</u>	<u>-</u>
Subtotal	28,251,812	15,260,485	13,987,502	29,524,795
Accumulated depreciation:				
Buildings and building improvements	13,745,977	128,124	671,631	13,202,470
Buses and other vehicles	1,055,196	88,732	177,207	966,721
Furniture and equipment	<u>789,905</u>	<u>81,234</u>	<u>168,951</u>	<u>702,188</u>
Subtotal	<u>15,591,078</u>	<u>298,090</u>	<u>1,017,789</u>	<u>14,871,379</u>
Net capital assets being depreciated	<u>12,660,734</u>			<u>14,653,416</u>
Net capital assets	<u>\$ 13,499,034</u>			<u>\$ 15,523,666</u>

Depreciation expense was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical.

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due To/From Other Funds:		
General Fund	Other governmental funds	\$ <u>28,323</u>
Interfund Transfers:		
	Transfer Out:	
	General Fund	
Transfer in:		
Other governmental funds		\$ <u>325,302</u>

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 6 - SHORT-TERM NOTE PAYABLE

Michigan Municipal Bond Authority
State Aid note payable on August
18, 2006 plus interest at 2.92%

\$ 1,600,000

NOTE 7 - LONG-TERM DEBT

The school district issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the school district. Other long-term obligations include accumulated severance pay.

Long-term obligation activity can be summarized as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds	\$14,461,302	\$ -	\$ 654,000	\$13,807,302	<u>\$ 691,595</u>
Other Obligations	<u>-</u>	<u>413,185</u>	<u>22,614</u>	<u>390,571</u>	<u>\$ 121,197</u>
Totals	<u>\$14,461,302</u>	<u>\$ 413,185</u>	<u>\$ 676,614</u>	<u>\$14,197,873</u>	

The annual requirement to service the bonds outstanding to maturity, including both principal and interest, are as follows:

<u>Year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 691,595	\$ 531,803	\$ 1,223,398
2008	751,761	515,688	1,267,449
2009	822,082	494,867	1,316,949
2010	802,419	468,479	1,270,898
2011	867,773	442,289	1,310,062
Thereafter	<u>9,871,672</u>	<u>2,066,088</u>	<u>11,937,760</u>
	<u>\$13,807,302</u>	<u>\$4,519,214</u>	<u>\$18,326,516</u>

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 7 - LONG-TERM DEBT - (Continued)

Governmental Activities:

General obligation bonds consist of:

2003 General Obligation School Building
and Site and Refunding Bonds payable
in annual installments of \$185,000 to
\$1,540,000 plus interest at 2.00% to
4.50% through May 2019 \$13,525,000

1999 General Obligation Energy Conservation
Improvement Bonds payable in annual
installments of \$75,000 to \$80,000
plus interest at 5.0% through May 2009 230,000

\$127,259 1998 School Improvement Bond
(Durant Settlement) payable in annual
installments of \$8,936 through
May 15, 2013; interest at 4.76%; annual
principal and interest payments are to
be paid directly by the State of Michigan 52,302

Total bonds payable \$ 13,807,302

Other governmental activity long-term obligations include:

Accumulated severance pay payable annually
from January 2007 through January 2009 \$ 390,571

NOTE 8 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for property loss, torts, errors and omissions, and medical claims for certain employee groups. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 9 - DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the District. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

Funding Policy - Employer contributions to the system result from the implementing effect of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 14.87 percent for the period July 1, 2005 through September 30, 2005 and 16.34 percent for the period October 1, 2005 through June 30, 2006 of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The District's contributions to the MPERS plan for the years ended June 30, 2006, 2005, and 2004 were \$1,543,650, \$1,341,404, and \$1,219,703.

Post Employment Benefits - Under the MPERS Act, all retirees participating in the MPERS Pension Plan have the option of continuing health, dental, and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPERS plan discussed above.

REQUIRED SUPPLEMENTAL INFORMATION

DELTON KELLOGG SCHOOLS

REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED June 30, 2006

	Original Budget	Final Budget	Actual	Over (under) Final Budget
Revenues:				
Local sources	\$ 1,953,464	\$ 2,172,621	\$ 2,192,316	\$ 19,695
State sources	12,573,457	12,019,842	12,047,307	27,465
Federal sources	796,981	810,732	811,265	533
Interdistrict sources	<u>157,640</u>	<u>217,158</u>	<u>217,158</u>	<u>-</u>
Total revenue	15,481,542	15,220,353	15,268,046	47,693
Expenditures:				
Instruction				
Basic programs	8,128,379	8,211,842	8,223,260	(11,418)
Added needs	1,492,306	1,582,561	1,546,307	36,254
Adult/community education	544,144	415,431	416,806	(1,375)
Support services				
Pupil	435,833	450,488	451,525	(1,037)
Instructional staff	305,137	355,089	356,815	(1,726)
General administration	344,329	369,636	361,602	8,034
School administration	912,767	920,295	917,800	2,495
Business services	321,958	360,512	398,972	(38,460)
Operations and maintenance	1,716,171	1,714,677	1,678,868	35,809
Transportation	580,516	615,061	602,421	12,640
Technology services	330,946	276,579	258,909	17,670
Community services	99,714	114,038	114,748	(710)
Debt service				
Principal 70,000	70,000	70,000	-	
Interest and other	<u>68,420</u>	<u>68,420</u>	<u>68,820</u>	<u>(400)</u>
Total expenditures	<u>15,350,620</u>	<u>15,524,629</u>	<u>15,466,853</u>	<u>57,776</u>
Excess (deficiency) of revenues over expenditures	130,922	(304,276)	(198,807)	105,469
Other financing sources (uses)				
Operating transfers out	<u>(338,905)</u>	<u>(336,465)</u>	<u>(325,302)</u>	<u>11,163</u>
Net change in fund balance	(207,983)	(640,741)	(524,109)	116,632
Fund balance, July 1	<u>2,123,722</u>	<u>2,123,722</u>	<u>2,123,722</u>	<u>-</u>
Fund balance, June 30	<u>\$ 1,915,739</u>	<u>\$ 1,482,981</u>	<u>\$ 1,599,613</u>	<u>\$ 116,632</u>

OTHER SUPPLEMENTAL INFORMATION

DELTON KELLOGG SCHOOLS
OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND
STATEMENT OF REVENUES
YEAR ENDED June 30, 2006

Local sources	
Property taxes	\$ 1,867,457
Tuition	41,355
Interest on invested balances	44,459
Sale of school property	187,333
Refunds and reimbursements	10,283
Miscellaneous	<u>41,429</u>
Total local sources	2,192,316
State sources	
Foundation	11,129,365
At risk	284,314
Adult education	243,981
Early childhood education	82,500
Vocational education	12,486
Special education	275,974
Other programs	5,962
Durant Settlement	<u>12,725</u>
Total state sources	12,047,307
Federal sources	
Title I Part A	303,954
Title I Part B	30,000
Technology Literacy	5,731
Title V LEA allocation	818
Adult basic education	117,000
Homeland security	3,788
Drug free schools	7,408
I.D.E.A. program	200,470
Title IIA Improving Teacher Quality	108,551
Medicaid outreach	<u>33,545</u>
Total federal sources	811,265
Interdistrict sources	
Durant settlement	7,815
Special education	<u>209,343</u>
Total interdistrict sources	<u>217,158</u>
Total revenues	<u>\$ 15,268,046</u>

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND
STATEMENT OF EXPENDITURES
YEAR ENDED June 30, 2006

Instruction

Basic Programs

Elementary

Salaries	\$ 1,769,030
Employee benefits	831,157
Purchased services	8,539
Supplies, material, and other	71,379
Capital outlay	<u>-</u>
	2,680,105

Middle school

Salaries	1,586,953
Employee benefits	795,696
Purchased services	16,075
Supplies, material, and other	63,343
Capital outlay	<u>-</u>
	2,462,067

High school

Salaries	1,766,396
Employee benefits	881,133
Purchased services	137,186
Supplies, material, and other	194,367
Capital outlay	<u>-</u>
	2,979,082

Pre-School

Salaries	65,430
Employee benefits	31,301
Purchased services	689
Supplies, materials, and other	<u>4,586</u>
	102,006

Total basic programs

8,223,260

Added needs

Special education

Salaries	823,353
Employee benefits	407,333
Purchased services	654
Supplies, material, and other	<u>10,833</u>
	1,242,173

Compensatory education

Salaries	215,588
Employee benefits	76,799
Purchased services	1,560
Supplies, material, and other	<u>10,187</u>
	304,134

Total added needs

1,546,307

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND
STATEMENT OF EXPENDITURES (Continued)
YEAR ENDED June 30, 2006

Adult education services	
Basic	
Salaries	260,743
Employee benefits	105,075
Purchased services	3,143
Supplies, materials, and other	47,845
Capital outlay	<u>-</u>
Total adult education services	<u>416,806</u>
Total instruction	10,186,373
Supporting services	
Pupil services	
Guidance services	
Salaries	298,463
Employee benefits	142,297
Supplies, materials, and other	<u>9,405</u>
Total guidance services	450,165
Other pupil services	
Salaries	1,097
Employee benefits	<u>263</u>
Total other pupil services	<u>1,360</u>
Total pupil services	451,525
Instructional staff services	
Improvement of instruction	
Salaries	39,400
Employee benefits	8,995
Purchased services	2,822
Supplies, materials, and other	818
Capital outlay	<u>-</u>
Total improvement of instruction	52,035
Library	
Salaries	184,074
Employee benefits	72,487
Purchased services	520
Supplies, materials, and other	<u>32,007</u>
Total library services	289,088
Audio-visual	
Supplies, materials, and other	<u>15,692</u>
Total instructional staff services	356,815

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND
STATEMENT OF EXPENDITURES (Continued)
YEAR ENDED June 30, 2006

General administrative services

Board of education

Salaries	6,000
Purchased services	64,070
Supplies, materials, and other	<u>20,136</u>
	90,206

Executive administration

Salaries	136,713
Employee benefits	98,336
Purchased services	31,710
Supplies, materials, and other	<u>4,637</u>
	<u>271,396</u>

Total general administrative services 361,602

School administrative services

Office of the principal

Salaries	634,215
Employee benefits	266,306
Purchased services	3,616
Supplies, materials, and other	13,663
Capital outlay	<u>-</u>

Total school administrative services 917,800

Business services

Fiscal services

Salaries	128,406
Employee benefits	72,646
Purchased services	13,060
Supplies, materials, and other	<u>3,938</u>
	218,050

Other services

Employee benefits	66,716
Purchased services	7,500
Supplies, materials, and other	73,695
Capital outlay	<u>33,011</u>
	<u>180,922</u>

Total business services 398,972

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND

STATEMENT OF EXPENDITURES (Continued)
YEAR ENDED June 30, 2006

Operation and maintenance services

Operation and maintenance

Salaries	589,175
Employee benefits	403,243
Purchased services	287,821
Supplies, materials, and other	398,629
Capital outlay	<u>-</u>

Total operation and maintenance services 1,678,868

Pupil transportation services

Pupil transportation

Salaries	294,873
Employee benefits	116,860
Purchased services	22,721
Supplies, materials, and other	105,084
Capital outlay	<u>62,883</u>

Total pupil transportation services 602,421

Other supporting services

Technology services

Salaries	113,393
Employee benefits	54,253
Purchased services	38,189
Supplies, materials, and other	10,485
Capital outlay	<u>42,589</u>

Total technology services 258,909

Total supporting services 5,026,912

Community services

Community education

Salaries	81,122
Employee benefits	32,676
Purchased services	290
Supplies, materials, and other	<u>660</u>

Total community education 114,748

Debt service

Principal payments

Interest	<u>68,820</u>
----------	---------------

Total debt service 138,820

Total expenditures \$ 15,466,853

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2006

	<u>Special Revenue Funds</u>		
	<u>Food Services</u>	<u>Athletics</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 47,301	\$ 35,296	\$ 82,597
Accounts receivable	-	385	385
Due from other governmental units	-	-	-
Due from other funds	-	-	-
Inventory	<u>5,787</u>	<u>-</u>	<u>5,787</u>
Total assets	<u>\$ 53,088</u>	<u>\$ 35,681</u>	<u>\$ 88,769</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 1,167	\$ 13,253	\$ 14,420
Accrued payroll	7,537	5,326	12,863
Accrued benefits	1,808	4,010	5,818
Due to other funds	<u>18,323</u>	<u>10,000</u>	<u>28,323</u>
Total liabilities	28,835	32,589	61,424
Fund balances:			
Reserved:			
Inventory	5,787	-	5,787
Unreserved:			
Undesignated	<u>18,466</u>	<u>3,092</u>	<u>21,558</u>
Total fund balances	<u>24,253</u>	<u>3,092</u>	<u>27,345</u>
Total liabilities and fund balances	<u>\$ 53,088</u>	<u>\$ 35,681</u>	<u>\$ 88,769</u>

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUND
YEAR ENDED June 30, 2006

	<u>Special Revenue Funds</u>		
	<u>Food Services</u>	<u>Athletics</u>	<u>Total</u>
Revenues:			
Local sources	\$ 420,110	\$ 113,056	\$ 533,166
State sources	53,584	-	53,584
Federal sources	<u>316,860</u>	<u>-</u>	<u>316,860</u>
Total revenues	790,554	113,056	903,610
Expenditures:			
Food services	783,072	-	783,072
Athletics	<u>-</u>	<u>438,152</u>	<u>438,152</u>
Total expenditures	<u>783,072</u>	<u>438,152</u>	<u>1,221,224</u>
Excess (deficiency) of revenues over expenditures	7,482	(325,096)	(317,614)
Other Financing Sources:			
Operating transfers in	<u>-</u>	<u>325,302</u>	<u>325,302</u>
Net change in fund balances	7,482	206	7,688
Fund balances, July 1	<u>16,771</u>	<u>2,886</u>	<u>19,657</u>
Fund balances, June 30	<u>\$ 24,253</u>	<u>\$ 3,092</u>	<u>\$ 27,345</u>

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

FOOD SERVICE SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
YEAR ENDED June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:			
Local sources	\$ 417,139	\$ 420,110	\$ 2,971
State sources	61,286	53,584	(7,702)
Federal sources	<u>321,663</u>	<u>316,860</u>	<u>(4,803)</u>
Total revenues	800,088	790,554	(9,534)
Expenditures:			
Salaries	267,845	267,223	622
Employee benefits	83,166	76,702	6,464
Purchased services	24,958	25,657	(699)
Supplies, material, and other	404,842	404,733	109
Capital outlay	<u>14,600</u>	<u>8,757</u>	<u>5,843</u>
Total expenditures	<u>795,411</u>	<u>783,072</u>	<u>12,339</u>
Excess (deficiency) of revenues over expenditures	4,677	7,482	2,805
Other Financing Sources:			
Operating transfers in	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures and other sources	4,677	7,482	2,805
Fund balances, July 1	<u>16,771</u>	<u>16,771</u>	<u>-</u>
Fund balances, June 30	<u>\$ 21,448</u>	<u>\$ 24,253</u>	<u>\$ 2,805</u>

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

ATHLETIC SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
YEAR ENDED June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:			
Local sources	\$ 112,459	\$ 113,056	\$ 597
Expenditures:			
Salaries	267,603	258,874	8,729
Employee benefits	80,196	77,259	2,937
Purchased services	42,684	42,795	(111)
Supplies, material, and other	42,932	43,715	(783)
Capital outlay	<u>15,509</u>	<u>15,509</u>	<u>-</u>
Total expenditures	<u>448,924</u>	<u>438,152</u>	<u>10,772</u>
Excess (deficiency) of revenues over expenditures	(336,465)	(325,096)	11,369
Other Financing Sources:			
Operating transfers in	<u>336,465</u>	<u>325,302</u>	<u>(11,163)</u>
Excess (deficiency) of revenues over expenditures and other financing sources	-	206	206
Fund balances, July 1	<u>2,886</u>	<u>2,886</u>	<u>-</u>
Fund balances, June 30	<u>\$ 2,886</u>	<u>\$ 3,092</u>	<u>\$ 206</u>

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

STUDENT ACTIVITIES AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
YEAR ENDED June 30, 2006

	Balances <u>June 30, 2005</u>	<u>Additions</u>	<u>Deductions</u>	Balances <u>June 30, 2006</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ <u>140,968</u>	\$ <u>333,206</u>	\$ <u>319,983</u>	\$ <u>154,191</u>
<u>LIABILITIES</u>				
Due to student groups	\$ <u>140,968</u>	\$ <u>333,206</u>	\$ <u>319,983</u>	\$ <u>154,191</u>

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

STATEMENT OF BONDED INDEBTEDNESS
\$14,445,000 2003 General Obligation School Building
and Site and Refunding Bonds

<u>Year Ended</u> <u>June 30</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>		<u>Total</u>
		<u>May 1</u>	<u>November 1</u>	<u>May 1</u>	
2007	2.00	\$ 610,000	\$ 258,981	\$ 258,981	\$ 1,127,962
2008	2.50	670,000	252,881	252,881	1,175,762
2009	3.00	735,000	244,506	244,506	1,224,012
2010	3.25	795,000	233,481	233,481	1,261,962
2011	3.25	860,000	220,563	220,563	1,301,126
2012	3.75	930,000	206,588	206,588	1,343,176
2013	4.00	1,005,000	189,150	189,150	1,383,300
2014	4.00	1,090,000	169,050	169,050	1,428,100
2015	4.25	1,180,000	147,250	147,250	1,474,500
2016	4.00	1,270,000	122,175	122,175	1,514,350
2017	4.375	1,370,000	96,775	96,775	1,563,550
2018	4.375	1,470,000	66,806	66,806	1,603,612
2019	4.50	<u>1,540,000</u>	<u>34,650</u>	<u>34,650</u>	<u>1,609,300</u>
		<u>\$ 13,525,000</u>	<u>\$ 2,242,856</u>	<u>\$ 2,242,856</u>	<u>\$18,010,712</u>

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

STATEMENT OF BONDED INDEBTEDNESS
\$645,000 1999 Energy Conservation Improvement Bonds

<u>Year Ended</u> <u>June 30</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>		<u>Total</u>
		<u>May 1</u>	<u>November 1</u>	<u>May 1</u>	
2007	5.00	\$ 75,000	\$ 5,750	\$ 5,750	\$ 86,500
2008	5.00	75,000	3,875	3,875	82,750
2009	5.00	<u>80,000</u>	<u>2,000</u>	<u>2,000</u>	<u>84,000</u>
		<u>\$ 230,000</u>	<u>\$ 11,625</u>	<u>\$ 11,625</u>	<u>\$ 253,250</u>

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

STATEMENT OF BONDED INDEBTEDNESS
YEAR ENDED June 30, 2006

1998 SCHOOL IMPROVEMENT BONDS \$ 127,529

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2007	4.76	\$ 2,341	\$ 6,595	\$ 8,936
2008	4.76	2,176	6,761	8,937
2009	4.76	1,855	7,082	8,937
2010	4.76	1,517	7,419	8,936
2011	4.76	1,163	7,773	8,936
2012	4.76	794	8,142	8,936
2013	4.76	<u>406</u>	<u>8,530</u>	<u>8,936</u>
Total		<u>\$ 10,252</u>	<u>\$ 52,302</u>	<u>\$ 62,554</u>

Interest and principal on the bonds of the above issue is payable annually on May 15. As part of the Durant Settlement the annual principal and interest payments are to be made directly by the State of Michigan.

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED June 30, 2006

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed Through State Department of Education:			
Title I - Educationally Deprived	84.010	0615300506	\$ 307,209
Title V LEA allocation	84.298	0602500506	818
Technology Literacy	84.318	0642900506	5,731
Title IIA Teacher Quality	84.367	0605200506	108,551
Adult Basic Education Sec. 306 Instruction	84.002	051130610976 061130610976	13,000 104,000
Total passed through MDE			
Passes Through State Department of Labor and Economic Growth:			
Vocational Rehabilitation Services	84.126		30,000
Passed Through Intermediate School District:			
Drug Free Schools	84.186		7,408
IDEA	84.027		200,470
Total passed through ISD			

TOTAL DEPARTMENT OF EDUCATION

Notes:

- 1.*Designates Major Program
2. Dollar threshold used to distinguish between Type A and Type B programs
- \$300,000.
3. Expenditures in this schedule are in agreement with amounts reported in
the financial statements.
4. The amounts reported on the R7120 reconcile with this schedule.

(continued on next page)

Accrued/ (Deferred) Revenue <u>June 30, 2005</u>	(Memo only) Prior Year <u>Expenditures</u>	<u>Expenditures</u>	<u>Receipts</u>	Accrued/ (Deferred) Revenue <u>June 30, 2006</u>
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\$ -		\$ 303,954	\$ 294,209	\$ 9,745
-		818	818	-
-		5,731	5,731	-
-		108,551	108,551	-
-		13,000	13,000	-
-		104,000	104,000	-
-		117,000	117,000	-
-		536,054	526,309	9,745

7,500	30,000	30,000	30,000	7,500
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7,476	7,476	7,408	14,884	-
-		200,470	200,470	-
7,476		207,878	215,354	-
14,976		773,932	771,663	17,245

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued
YEAR ENDED June 30, 2006

<u>Federal Grantor/Pass-Through Grantor/ Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>
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U.S. DEPARTMENT OF AGRICULTURE

Passed Through State Department
of Education:

Nutrition Cluster

National School Lunch Program	10.555	051950	39,037
		061950	36,972
		051960	149,727
		061960	154,535

National School Lunch Breakfast	10.553	051970	54,926
		061970	58,219

Food Distribution

Entitlement Commodities	10.550		37,121
Bonus Commodities			582

TOTAL DEPARTMENT OF AGRICULTURE

U.S DEPARTMENT OF HOMELAND SECURITY

Passed Through Michigan State Police:

2003 State Homeland Security Grant	97.004		3,788
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U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Passed Through Intermediate School District:

Medicaid Outreach	93.778		-
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TOTAL FEDERAL FINANCIAL ASSISTANCE

Accrued/ (Deferred) Revenue June 30, 2005	(Memo only) Prior Year Expenditures	Expenditures	Receipts	Accrued/ (Deferred) Revenue June 30, 2006
-	34,425	4,612	4,612	-
-		36,972	36,972	-
-	130,922	18,805	18,805	-
-		154,535	154,535	-
-		* 214,924	214,924	-
-	48,912	6,014	6,014	-
-		58,219	58,219	-
-		* 64,233	64,233	-
-		37,121	37,121	-
-		582	582	-
-		* 37,703	37,703	-
-		316,860	316,860	-
-		3,788	3,788	-
-		33,545	33,545	-
<u>\$ 14,976</u>		<u>\$ 1,128,125</u>	<u>\$ 1,125,856</u>	<u>\$ 17,245</u>



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REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
Delton Kellogg Schools, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Delton Kellogg Schools, as of and for the year ended June 30, 2006, which collectively comprise the Delton Kellogg Schools basic financial statements and have issued our report thereon dated September 29, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting - In planning and performing our audit, we considered Delton Kellogg Schools internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters - As part of obtaining reasonable assurance about whether Delton Kellogg Schools financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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Patrick J. Monahan, CPA
Bruce S. A. Gosling, CPA
Michael R. Wilson, CPA
Rick L. Strawser, CPA
Jerrel T. Norman (1941-1982)

Norman & Paulsen, P.C.

September 29, 2006



Norman & Paulsen, P.C.

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education
Delton Kellogg Schools, Michigan

Compliance - We have audited the compliance of Delton Kellogg Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Delton Kellogg Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Delton Kellogg Schools' management. Our responsibility is to express an opinion on Delton Kellogg Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local governments, and Non-Profit Organizations*. Those standards and OMB circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Delton Kellogg Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Delton Kellogg Schools' compliance with those requirements.

In our opinion, Delton Kellogg Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Donald L. Paulsen, CPA
Patrick J. Monahan, CPA
Bruce S. A. Gosling, CPA
Michael R. Wilson, CPA
Rick L. Strawser, CPA
Jerrold T. Norman (1941-1982)

Internal Control over Compliance - The management of Delton Kellogg Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Delton Kellogg Schools internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Norman J. Paulsen, P.C.

September 29, 2006

DELTON KELLOGG SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED June 30, 2006

1. Summary of auditor's results:

- (i) An unqualified opinion was issued on the financial statements.
- (ii) No reportable conditions in internal control were disclosed by the audit of the financial statements.
- (iii) The audit disclosed no noncompliance.
- (iv) No reportable conditions in internal control over major programs were disclosed by the audit.
- (v) An unqualified opinion was issued on Compliance for major programs.
- (vi) No audit findings were disclosed.
- (vii) Major programs: U.S. Department of Agriculture
Nutrition Cluster
- (viii) Dollar threshold used to distinguish between Type A and Type B programs: \$300,000
- (ix) Delton Kellogg Schools qualified as a low-risk auditee.

2. Findings relating to the financial statements which are required to be reported in accordance with GAGAS.

NONE

3. Findings and questioned costs for Federal awards.

NONE